A Study on "Driving Trends Shaping The Future of Fintech Revolution In India and Its Contemporary Challenges"

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Abstract: *Fintech refers to the integration of technology into offerings by financial services companies in order to improve their use and delivery to consumers. It primarily works by unbundling offerings by such firms and creating new markets for them. It simplifies financial transactions for consumers or business and making them more accessible and affordable. It can also apply to companies and services utilizing AI, big data and encrypted block chain technology to facilitate highly secure transactions amongst an internal network. This article focusses on understanding the major trends shaping the future of Fintech in India and break down how the Fintech market is evolving in key service and technology segments. The contemporary challenges faced in successful implementation of Fintech market in India is also discussed.*

Keywords: *Digital payments, Fintech platforms, Technological innovations, financial literacy, Online frauds*

1. Introduction: Fintech refers to the integration of technology into offerings by financial services companies in order to improve their use and delivery to consumers. It primarily works by unbundling offerings by such firms and creating new markets for them. It simplifies financial transactions for consumers or business and making them more accessible and affordable. It can also apply to companies and services utilizing AI, big data and encrypted block chain technology to facilitate highly secure transactions amongst an internal network.

This article focusses on understanding the major trends shaping the future of Fintech in India and break down how the Fintech market is evolving in key service and technology segments.

2. Objectives of the Study:

- To identify the major trends shaping the future of Fintech industry in India.
- To provide a conceptual overview on the evolving role of Fintech market in key service and technology segments.
- To get an understanding on the key trends driving Indian Fintech companies.
- To identify the current challenges in successful implementation of Fintech in India.

3. Fintech industry in India: A quicker look: Banks have conventionally served as the gateway to payment services in India. However, with the rapid advancement of technology, this no longer appears to be the case, as the monopoly of banks in this area is gradually weakening.

In recent years, India's payments infrastructure has seen substantial improvements, particularly with the introduction of new payment mechanisms and interfaces such as Immediate Payments Service (IMPS), Unified Payments Interface (UPI), Bharat Interface for Money (BHIM) and others. The government's 'Make in India' and 'Digital India' projects also played a significant role in accelerating the adoption of Fintech. It is commendable that the Reserve Bank of India has also pushed the growing use of electronic payments to launch a truly cashless society in recent years.

Furthermore, government actions such as the implementation of demonetization and GST have also created a substantial growth opportunity for Fintech projects all over the country. Although demonetization resulted in a lot of chaos and turmoil, eventually, it was the driver for a shift away from a paper based, cash based economy toward digital, electronic, technology driven platforms that boosted the nation's already existing Fintech system. And it is only reasonable to assume that the COVID-19 pandemic has hastened this digitalization across various categories, with contactless and cashless payments promoted to encourage social distancing.

Digital payments have become a way of life in India and it has seen 10 to 15 million new customers coming on to the digital fashion over the last 12 months. Two factors that led to this change were demonetization and Covid-19 pandemic.

Due to various factors such as an innovation-driven startup scene, a highly favourable market, enhanced smartphone and internet penetration levels, a young population with the median age in the 20s, and government-led attempts to promote the industry, the country offers a great space for a Fintech revolution. In addition, the growing awareness of financial technology has provided the Indian Fintech industry with a much-needed boost.

Fintech companies growing partnerships with traditional banking, insurance and retail sectors, where they are actively catering to evolving customer needs, will further accelerate Fintech's expansion in India.

All these factors indicate a positive shift towards Fintech and present a huge growth potential for the industry, with the country gearing towards massive adoption.

4. Latest Statistics on Indian Fintech Sector: There are over 2100 Fintech companies in India, out of which more than 67 percent have been set up in the last five years. India's Fintech segment has also seen exponential growth in funding; investments worth more than US$8 billion were received across various stages of investment in 2021.

Recently on December 3, 2021, at the launch of InFinity forum, a thought leadership forum on Fintech, Indian PM Narendra Modi called for a 'Fintech revolution' in India with a 'security shield', primarily to be driven by income, investments, insurance and institutional credit. The statement comes at a time when India has the highest Fintech adoption rate in the world at 87 percent and significantly higher than the global average rate of 64 percent. Enabling factors for this include the Digital India initiative, a conducive policy environment and the presence of a sizeable talent pool.

During the pandemic, when every other sector has experienced slump in growth, the Fintech sector has thrived as COVID-based restrictions curtailed physical movement and encouraged contactless transactions. According to Amitabh Kant – CEO of NITI Aayog, the Indian fintech industry has a cumulative funding of over US $27.6 billion and according to a report by Boston consulting group and FICCI, Indian Fintech sector is expected to be valued at over US $150 billion by 2025, implying a USD 100 billion in incremental value creation potential. To achieve this goal, India's Fintech sector will need investments of $20-25 billion over the next few years, according to this report titled 'India Fintech: A USD 100 Billion Opportunity.'

Over the last two years, there has been a massive adoption of digital payment systems in India, making it a lot more convenient to go about with basic financial services. This growth and expansion of the Fintech ecosystem in India have been aided by a number of factors, including the growing availability of smart phones, increased internet access and high-speed connectivity.

5. Key factors shaping Fintech market in India: Supply side enablers such as exponentially growing computing power, wide spread internet dispersion and increased internet speed and coverage, coupled with demand side stimulants like need for inclusive financial services, customer expectations and the business need to reduce costs while providing faster, safer and more reliable services are some of the key factors shaping the Fintech revolution in India.

Furthermore, as Fintech platforms and services mature with a strong user base and product market fit, they have been identifying more opportunities to diversify their revenue streams, inturn giving rise to Super apps. Super apps bring a varied set of services under one umbrella that can facilitate multiple daily use cases. With increasing levels of digitalization, greater affordability of smartphones and a COVID-induced preference for digital services, Super apps are finding greater acceptance across the Indian market. It is also worth noting that BigTech, such as Google, Amazon and WhatsApp, have nipped their offerings to provide tailored services in India like Google Pay, Amazon Pay, and WhatsApp Payments respectively.

Payments app Paytm, too is set to become a Super app. Paytm has brought in financial service product and services, including payment, investment, loan and insurance on the same platform that also integrated e-commerce, value added services for merchants, and consumer internet services (such as gaming and entertainment) in one app.

Presently, at global level, there are 187 Fintech unicorns of which 18 Unicorns are in India. These are Paytm, Policy Bazaar, Razor Pay, Bill Desk, Zoho, Zerodha, Pine Labs, Cred, Charge bee, Digit, Groww, Zeta, Bharat Pe, Coin DCX, OfBusiness, Slice, Upstox and Acko. Slice was the most recent entry in the Fintech unicorn list, raising US $ 220 million in a series-B round.

Most of these platforms have now taken to financial services re-bundling by incorporating a bundle of services under the same umbrella, driven by opportunity to monetize the data and user base. These firms are cross selling different financial products and services. For example, Pine Labs, which was primarily a POS/Payment gateway firm has now ventured into value added services for merchants, rewards and loyalty, consumer financing, neo banking, as well as merchant lending. Similarly, Yono, which was primarily as digital banking platform, has now grown into a venture that also caters to new customer acquisition, pre-approved consumer loan and insurance as well as e-commerce. All these key factors are shaping the Fintech revolution in India.

6. Different Fintech segments in India: Real time payments, faster disbursal of loans, investment advisory, transparent insurance advisory and distribution, peer to peer lending, and several other services that traditionally required human capital are now rapidly becoming a part of the digital-native Fintech landscape. The Fintech ecosystem in India can now focus on lending for both consumers as well as MSMEs. At the same time, more traditional financial services such as insurance, personal finance and gold lending are included within this sector.

PayTech: In this segment, the consumer centric services offered include third party application providers (TPAP), prepaid card/Wallet, bill payment, QR code payment, payment aggregator, and point of sale (POS). Business centric services include corporate cards, B2B payments and invoice payments. In this segment, Fintech comes into play through use of services like payment gateway, card networks, and application programming interface.

(API)/White label solutions, as well as payment security. Paytm, PhonePe, MobiWik and Google Pay are the major players in this segment.

LendTech: The consumer centric services offered in this segment include buy now pay later (BNPL), personal loan, salary loan, gold loan, auto loan, education loan, and P2P lending while the business centric services include corporate card, fixed term finance, as well as trade finance. Fintech services employed in this segment include collections management, credit bureau, alternate credit scoring, lending as a service, and loan origination system (LOS) and loan management system (LMS). Google Pay, M-Swipe, and Razor Pay are emerging as leading lending platforms for consumers as well as merchants.

Digital banking: Technology is leveraged in this segment through establishment of digital subsidiary of banks, retail neobanks, as well as SME (small and medium enterprise) neobanks. The Neobanks are basically digital platforms for business banks. The Fintech services employed in digital banking include conversational platforms, account aggregators, API providers and aggregators, banks with open APIs, banking as a service and core banking. Yono, Kahatabook, and Crazybee are some of the major firms with primary engagement in digital banking.

InsurTech: The scope of services offered through the use of technology in this segment include insurance comparison platforms, digital insurers, electronic insurance, as well as employee insurance. In this segment, Fintech can be employed by providing services like claims management, sales platform, underwriting risk management, insurance infrastructure API, insurance product configurator and policy admin system. Policy bazaar is a market giant in this segment.

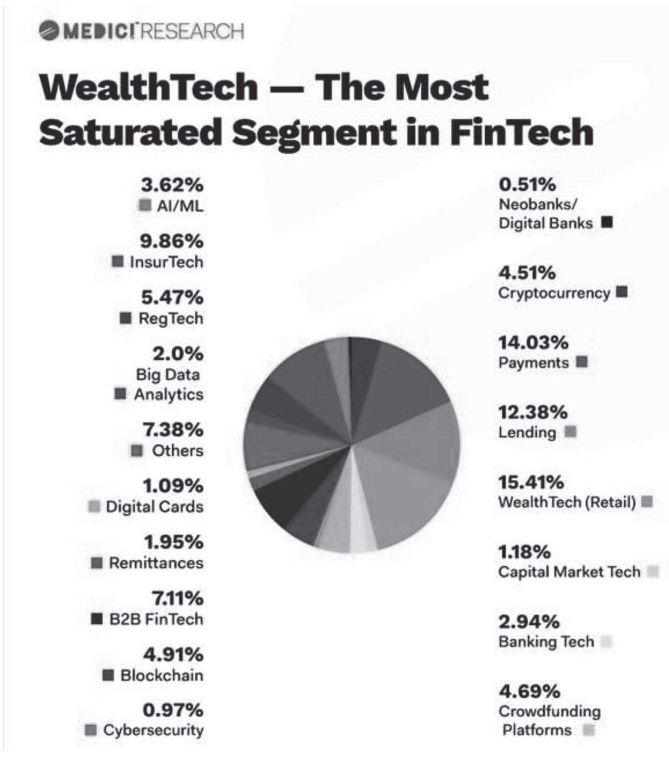
WealthTech: Within this segment, technology can be employed to provide services related to wealth and expense management through robo advisors, discount brokers, mutual fund investment platforms, research platforms and alternative investment platforms. The Fintech services applicable in this segment are white label robo advisors, portfolio management suite and Cap Table management. Prominent firms in this segment are Zerodha and Small case.

Finance Fintech: The various services that can be provided in this segment include:

- *Accounting:* Services are provided at the level of enterprises, SMEs and micro size businesses.
- *Procure to pay*
- *Quote to cash*
- *Taxation*
- *Reconciliation*

RegulationTech: The technology is also being utilized to fulfill compliances and regulatory requirements within the financial services sector, including KYC, digital on boarding, fraud detection, anti-money laundering (AML), as well as banking compliance and risk management solutions.

Fig. 5.1: Showing Fintech Segment



Source: www.goMEDI.com

6. Major trends driving Fintech revolution in India:

i. Supply side factors: Growth of Fintech in India is driven by various macroeconomic factors, such as enabling government and regulatory initiatives, India's demographic dividend, increasing national disposable incomes, large unbanked population, improving internet access and smartphone penetration, and a rapidly evolving e-commerce marketplace.

ii. Governmental initiatives: Government support has been key – not only from the regulatory standpoint – but also in providing critical enabling assistance. Be it broadband infrastructure to enhance internet access in rural areas or digital literacy and financial programs, various government programs have accelerated the growth of the Fintech industry in India. These include Startup India, Digital India program, India Stack, E-RUPI, license for payments banks, Jan Dhan Yojana, recognition of P2P lenders as NBFCs, National Common Mobility Card (NCMC), regulatory sandboxes by RBI, and IRDAI for Fintech. Moreover, a robust public digital infrastructure aided with Aadhar, UPI, account aggregation etc. and a supportive regulatory environment has eased and augmented the technological transition in India. Regulators (RBI, IRDAI, and SEBI) have undertaken numerous measures to ensure increased accountability and the uninterrupted availability of secure and affordable digital financial systems. As of statistic taken on October 2021, India's Unified Payments Interface (UPI) has seen participation of 261 banks and has recorded 4.21 billion monthly transactions worth over US $100 billion.

iii. Investments in India's Fintech sector: In line with global trends, India's Fintech ecosystem has seen tremendous growth in recent years, making it one of the world's largest and fastest-growing Fintech markets. According to Tracxn's database, the total volume of Fintech funding till June 2021 was US$20.8 billion, with 36 percent of the funds raised in the last two years and amounting to US$8.6 billion. Further, in the first three quarters of 2021, investments worth US$4.6 billion were recorded in India's Fintech space with Pine Labs receiving investment worth US$600 million, followed by BharatPe (US$370 million), OfBusiness (US$207 million and US$160 million), Digit Insurance (US$217 million), and Khatabook (US$100 million). Recently, consumer internet group Prosus's payment arm PayU acquired the Indian payment gateway service provider BillDesk for US$4.7 billion.

A sectoral breakup of the funding received over the last two years (US$8.6 billion) reveals that the payments segment remains the biggest funding segment (48.5 percent), followed by alternate lending (28 percent), internet first insurance platforms (7.9 percent), investment tech (5.4 percent), banking tech (5 percent) and finance and accounting tech (3 percent).

According to S&P Global Market Intelligence, despite the pandemic, the Asia-Pacific region managed a steady inflow of investments. In 2020, India topped among Asia-Pacific (APAC) countries in Fintech investment with 121 deals amid COVID-19 led disruptions in the funding ecosystem. It must be noted that investments into the Indian fintech landscape were almost double that of China.

According to UK's Chancellor of the Exchequer Rishi Sunak, British fintech firms have announced investment plans worth over US$132 million for the Indian market.

iv. Demographic opportunities in India: The total number of internet users in India has increased from 795.18 million at the end of December 2020 to 825.30 million at the end of March 2021, registering a quarterly growth rate of 3.79 percent, as per data by the Telecom Regulatory Authority of India (TRAI). India's active number of internet users is further expected to expand, mainly driven by high rate of rural adoption. It is further estimated that by 2030, India will add 140 million middle-income and 21 million high-income households, driving the demand and growth for the Indian Fintech space.

v. Demand side factors: As the financial services industry is evolving from following a transactions-based approach earlier to adopting a more consumer centric approach, the cutting-edge technology employed by the Fintech space has created a niche for itself by offering tailor-made products according to consumer preferences. India's fast emerging tech-savvy consumer base led by millennials is leading the adoption of mobile-first products and services. Across various parts of the country, especially in tier 2 and tier 3 cities and smaller towns, consumers have leap frogged cards and wire transfers and moved directly to smart phone banking. Moreover, it has been observed that in the smartphone banking space, it is easier to onboard new customers.

Additionally, Fintech is significantly contributing towards bridging the social gap in India by providing employment as well as democratizing education by providing solutions to overcome the challenges posed by the traditional financing practices. Recently on December 9, 2021, Paytm signed a MoU with the skill development ministry to train over 6000 young Indians in Fintech through a six-month course and even offer employment to eligible candidates.

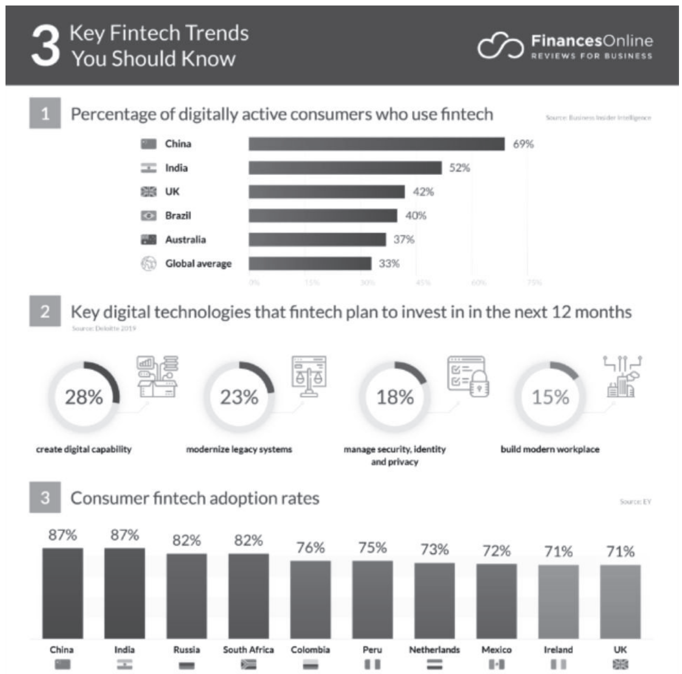
Fintech has also helped in augmenting financial inclusion by not only normalizing credit but also by bringing gender parity as studies suggest that overall trend of savings and investments among women in India has improved with increased usage of mobile apps, wallets, and platforms.

According to Experian estimates, before COVID-19, 22 million Indian consumers were seeking credit every month, and 70 percent of them dropped their applications mid-way due to complexities. The current Fintech industry is normalizing credit in smaller and daily life purchases through mechanisms like buy now pay later (BNPL), which is ensuring provision of frictionless credit to people. Simpl, Lazypay, Flipkart pay later, Scan Now Pay later, etc. are examples of apps as well as processes that are normalizing smaller credit lending in everyday life.

vi. Technological advancements: The overall financial services market is witnessing a major transition leveraging new and cutting-edge technologies, such as block chain, AI, ML, and cloud infrastructure. Three key technology factors driving growth of Fintech include a strong talent pool, increasing collaboration between banks and Fintech enterprises, as well as the fast pace of technological innovations on an everyday basis. According to a UNESCO study, India ranks among the top countries producing university graduates, and around 32 percent of all students in India pick Science, Technology, Engineering and Mathematic (STEM).

Technology is being exploited to bring in efficiency in processes like payments, claims processing, and savings marketplaces through e-KYC, video KYC, IoT, AI, digital signatures, and account aggregation infrastructure. Moreover, these technological advancements are bringing a sense of security among consumers through biometric identity verification techniques, such as voice, face recognition and iris scanning.

Fig 6.1: Showing Key Fintech Trends



Source: https://financesonline.com/fintech-trends/

7. Major challenges affecting Fintech adoption in India: While Fintech adoption in India has been unique, it continues to face certain challenges like risk of data security and privacy leak, platform downtimes, lack of financial literacy and awareness in India, as well as differential adoption rates among MSMEs that dominate Indian economy. Further, rapidly changing regulations due to the evolving nature of the sector also poses cost related challenges for users and businesses. For example, regulations for investment exits, crypto currency, payment regulations, data and infrastructure security and consumer protection are still evolving. Hence, fintech despite of having huge opportunities has still a tough path to walk on. Below is the probable roadblocks list in the path of Fintech enterprises

i. Restrictive regulatory framework: It is not very easy to enter into the Indian market and perform due to the restrictive regulatory framework designed to prevent frauds. It acts as a huge barrier for the new entrants. They need to fulfil lot of formalities before the start of its operations itself.

ii. Unbanked population: Unbanked population, Poor infrastructure in terms of Internet Connectivity and low literacy level are the other hindrances. Still a huge Indian population (48 percent) do not have bank accounts which are a must for conducting online transactions. Even though the people have bank accounts they still face the issues of poor internet connectivity which takes more processing time to finish the transaction. So people tend to prefer a cash transaction rather than online transaction. Keeping aside, the point of having a bank account and internet connectivity the majority of the Indian population still do not have enough financial literacy level suitable to go for it.

iii. Cash and carry business: It is very tough to change the conservative approach of merchants and users who deal the daily transactions with cash. Majority of the aged people have been doing these transactions in cash from a long time and it is hard to suddenly change their old habits and introduce them to new avenues at this age.

iv. Online frauds: Different frauds leading to loss of money in online transactions is a very hard bite to swallow for the customers. People's money is looted by the fraudsters by using technology and this has been a great challenge in front of the fin tech firms. So the firms indeed have to work hard for bringing improvements in infrastructure and being more consumer friendly.

v. Lack of full government support: Fin tech in India is deprived of lack of government support and Incentives for protecting their interests. At a very basic level this demoralizes the entrepreneurs. They were not provided the right guidance and support to start though it is something for the betterment of the country's economy as well.

vi. Investors trust: Like in any industry gaining investors trust is very difficult in these days, the Fin tech industry is not an exception too. Getting the required seed capital and other investment on time is becoming very difficult and this is going to reflect negative on the operations and functioning.

8. Conclusion: In all segments of financial services there is a plethora of Fintechs emerging in India. By observing the pace of fintechs emergence, the fact that India has enormous entrepreneurial potential cannot be denied. There are around 2100 Fintech start-up firms operating in India, and of these, nearly half were started in the past five years. Both technically and financially the fintech firms need to be groomed well. Indian can see a majority of successful start-ups in a payments space and it is expected the same with the other financial segments as well. The fintech industry need to be encouraged further with different initiatives by the government and other regulatory bodies. When it comes to banking sector, Fintech can be disruptive if the innovations take the backseat. Bankers must continuously look out for the additional benefits and improvements they can provide to satisfy the customers. The future decade will witness the real massive growth of fintech sector in India.

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